

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-12 ISO-00 AID-05 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 IO-14 NEA-10 NSAE-00

USIA-15 OPIC-06 SP-02 TRSE-00 LAB-04 SIL-01

AGRE-00 OMB-01 SS-15 PA-02 PRS-01 /118 W

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R 180919Z AUG 77

FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC 1373

INFO AMEMBASSY BONN

AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY PARIS

AMEMBASSY BRUSSELS

AMEMBASSY TOKYO

UNCLAS STOCKHOLM 3434

USEEC

USOEC

E.O. 11652: N/A

TAGS: EIND, EWWT, JA, SW

SUBJECT: PROMINENT SWEDISH SHIPPING COMPANY PLACES LARGE ORDER WITH
JAPANESE SHIPYARD DESPITE CRISIS IN DOMESTIC SHIPBUILDING
INDUSTRY

REF: STOCKHOLM A-67

1. ON AUGUST 17 THE STOCKHOLM PRESS REPORTED THAT THE
PROMINENT SWEDISH SHIPPING COMPANY BROSTROMS REDERI AB HAD
DECIDED TO AWARD AN ORDER FOR NINE ROLL ON/ROLL OFF SHIPS TO
MITSUI SHIPBUILDING AND ENGINEERING COMPANY RATHER THAN TO THE
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HARD-HIT DOMESTIC SHIPBUILDING INDUSTRY. THE PRICE FOR THE
NINE SHIPS QUOTED BY THE JAPANESE YARD WAS REPORTED TO BE
675 MILLION KRONOR, AS COMPARED WITH A PRICE OF 1.4 BILLION
KRONOR QUOTED BY GOTAVERKEN, A LEADING SWEDISH SHIP-
BUILDER. IF THE SHIPS WERE BUILT IN SWEDEN, HOW-
EVER, BRONSTROM WOULD NOT HAVE HAD TO PAY MORE THAN
980 MILLION KRONOR FOR THE NINE VESSELS. THE SWEDISH

GOVERNMENT WOULD HAVE PAID THE BALANCE IN THE FORM OF A SO-CALLED WRITE-OFF LOAN TO THE SHIPOWNER AMOUNTING TO 30 PERCENT OF THE CONTRACT PRICE FOR THE NEW CONSTRUCTIONS, IF BUILT AT A DOMESTIC SHIPYARD. DESPITE THIS FORM OF GOVERNMENT SUPPORT OF DOMESTIC SHIPBUILDING, THE PRICE DIFFERENTIAL BETWEEN THE JAPANESE AND SWEDISH BIDS WAS OVER 300 MILLION KRONOR, A CIRCUMSTANCE WHICH BROSTROM OBVIOUSLY COULD NOT OVERLOOK.

2. BROSTROM'S AWARDING OF THE CONTRACT TO MITSUI SHIPBUILDING AND ENGINEERING COMPANY WAS MADE IN THE FORM OF A LETTER OF INTENT TO THE JAPANESE YARD. HOWEVER, TO FINALIZE THE ORDER, BROSTROM MUST FIRST AGREE TO OBSERVE CERTAIN NEW MANNING REQUIREMENTS LAID DOWN BY THE SWEDISH ADMINISTRATION OF SHIPPING AND NAVIGATION IN CONJUNCTION WITH VARIOUS SEAMEN'S ORGANIZATIONS. PRELIMINARY AGREEMENTS HAVE ALREADY BEEN MADE BETWEEN BROSTROM AND THE UNION OF SHIP'S OFFICERS, AND UNION OF SHIP'S ENGINEERS ON THE MATTER OF CREW SIZE AND OTHER CONDITIONS RELATING TO THE NINE SHIPS IN QUESTION.

3. COMMENTING ON THIS LARGE ORDER, REPORTEDLY THE LARGEST SINGLE ORDER FOR NEW CONSTRUCTION EVER PLACED BY A SWEDISH SHIPPING COMPANY, THE SWEDISH PRESS CALLED ATTENTION TO THE SUSPICION THAT MITSUI IS PROBABLY UNCLASSIFIED

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TAKING A LOSS ON THE DEAL MERELY TO SUSTAIN EMPLOYMENT AT ITS YARDS. ONE LEADING STOCKHOLM PAPER STATED THAT CONSIDERING THE CRITICAL SITUATION PREVAILING IN THE DOMESTIC SHIPBUILDING INDUSTRY, THE DECISION TO AWARD SUCH A LARGE ORDER TO A JAPANESE YARD MUST HAVE BEEN A DIFFICULT ONE FOR BROSTROM TO MAKE. BUT THE PAPER ADDED IT IS UNDERSTANDABLE IF COLD ECONOMIC THINKING PLAYED A GREATER ROLE THAN SENTIMENT IN BROSTROM'S DECISION. AFTER ALL, BROSTROM COULD NOT JUST IGNORE A SAVING OF 300 MILLION KRONOR PARTICULARLY AT A TIME WHEN THE SHIPPING BUSINESS IS ALSO FEELING THE PINCH OF THE CURRENT RECESSION. THE STOCKHOLM PAPER POINTED TO THE HIGH SWEDISH COST LEVELS WHICH MAKE IT DIFFICULT, IF NOT IMPOSSIBLE, FOR SWEDISH COMPANIES TO COMPETE WITH FIRMS ABROAD. THIS IS A FACT WHICH JUST CANNOT BE DENIED, CONCLUDED THE PAPER.

4. COMMENT: THIS IS THE KIND OF PAINFUL DECISION WHICH, IF MADE FINAL, ADDS TO THE GROWING SENSE OF URGENCY OF THE GOS IN PREPARATION OF MEASURES TO RE-ESTABLISH SWEDEN'S COMPETITIVE POSITION IN INTERNATIONAL TRADE.

PERRY

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